

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



41ST DISTRICT AGRICULTURAL ASSOCIATION
DEL NORTE COUNTY FAIR
CRESCENT CITY, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-041
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

41ST DISTRICT AGRICULTURAL ASSOCIATION
DEL NORTE COUNTY FAIR
CRESCENT CITY, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Michelle Chan

Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#09-041

41ST DISTRICT AGRICULTURAL ASSOCIATION
DEL NORTE COUNTY FAIR
CRESCENT CITY, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Kevin Hartwick, President
Board of Directors
41st DAA, Del Norte County Fair
421 Highway 101 North
Crescent City, California 95531

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 41st District Agricultural Association (DAA), Del Norte County Fair, Crescent City, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 41st DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 41st DAA, Del Norte County Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 41st DAA, Del Norte County Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-041, on the 41st DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 41st DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in dark ink, appearing to read "Ron Shackelford", is written over a light gray rectangular background.

Ron Shackelford, CPA
Chief, Audit Office

June 26, 2009

**41ST DISTRICT AGRICULTURAL ASSOCIATION
DEL NORTE COUNTY FAIR
CRESCENT CITY, CALIFORNIA**

STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007

	Account Number	2008	2007
ASSETS			
Cash & Cash Equivalents	111 - 117	\$ 75,648	\$ 44,748
Accounts Receivable, Net	131	16,517	13,538
Accounts Receivable - CCA	133	149,475	144,071
Deferred Charges	143	2,936	1,767
Land	191	30,353	30,353
Buildings and Improvements, Net	192	1,031,396	1,079,763
Equipment, Net	193	-	-
TOTAL ASSETS		<u>1,306,325</u>	<u>1,314,240</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable & Other Liabilities	212	12,967	11,098
Taxes Payable	221 - 226	(933)	17
Deferred Income	228	21,150	16,735
Guaranteed Deposits	241	11,362	11,450
Compensated Absences Liability	245	17,367	17,000
Total Liabilities		<u>61,913</u>	<u>56,300</u>
Net Resources			
Reserve for Junior Livestock Auction	251	18,476	16,873
Net Resources - Operations	291	14,712	(13,119)
Net Resources - Capital Assets	291.1	1,061,749	1,110,116
Net Resources - Restricted Resources	293	149,475	144,071
Total Net Resources Available		<u>1,244,412</u>	<u>1,257,940</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 1,306,325</u>	<u>\$ 1,314,240</u>

**41ST DISTRICT AGRICULTURAL ASSOCIATION
DEL NORTE COUNTY FAIR
CRESCENT CITY, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007

	Account Number	2008	2007
REVENUE			
State Apportionments	312	\$ 180,000	\$ 180,000
Other F&E Allocation	318	35,000	80,500
Admissions	410	77,209	83,350
Commercial Space	415	15,999	12,175
Carnival	421	66,281	55,163
Food Concessions	422	19,604	20,589
Exhibits	430	3,341	3,771
Horse Show	440	2,346	1,994
Attractions - Fairtime	460	43,086	33,279
Miscellaneous Fair	470	31,039	33,987
Miscellaneous Non-Fair	471	1,870	1,350
JLA - Revenue	476	182,137	210,169
Non-Fair Revenue	480	164,992	148,150
Prior Year Adjustment	490	33,559	82,266
Other Capital Project Revenue	494	5,404	-
Other Revenue	495	39,460	4,116
Total Revenue		901,327	950,858
EXPENSES			
Administration	500	232,771	219,502
Maintenance and Operations	520	240,335	203,489
Publicity	540	8,499	10,936
Attendance	560	17,159	18,094
Miscellaneous Fair	570	3,433	2,775
Miscellaneous Non Fair	571	3,109	5,254
JLA - Expense	576	180,533	211,922
Premiums	580	12,884	13,904
Exhibits	630	21,851	27,565
Horse Show	640	1,202	1,300
Net Resources - Capital Assets	660	103,239	114,936
Non-Capitalized Expenditures	723	2,743	-
Prior Year Adjustments	800	30,029	37,064
Cash Over/Short from Ticket Sales	850	278	104
Depreciation Expense	900	56,790	56,844
Other Capital Project Expense	940	-	33,023
Other Operating Expense	945	-	23,647
Total Expenses		914,855	980,359
RESOURCES			
Net Change - Income / (Loss)		(13,528)	(29,502)
Resources Available, January 1		1,257,940	1,287,442
Resources Available, December 31		\$ 1,244,412	\$ 1,257,940

**41ST DISTRICT AGRICULTURAL ASSOCIATION
DEL NORTE COUNTY FAIR
CRESCENT CITY, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ (13,528)	\$ (29,502)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(2,979)	6,127
(Increase) Decrease in CCA Receivable	(5,404)	29,017
(Increase) Decrease in Deferred Charges	(1,169)	(198)
Increase (Decrease) in Accounts Payable & Other Liabilities	1,869	880
Increase (Decrease) in Payroll Taxes	(950)	119
Increase (Decrease) in Deferred Income	4,415	7,849
Increase (Decrease) in Guarantee Deposits	(88)	5,810
Increase (Decrease) in Compensated Absence Liability	367	3,591
Total Adjustments	<u>(3,939)</u>	<u>53,194</u>
Net Cash Provided (Used) by Operating Activities	<u>(17,467)</u>	<u>23,692</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Buildings & Improvements, Net	48,367	(28,678)
(Increase) Decrease in Equipment, Net	<u>-</u>	<u>10,906</u>
Net Cash Provided (Used) by Investing Activities	<u>48,367</u>	<u>(17,772)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	30,900	5,921
Cash at Beginning of Year	44,748	38,827
CASH AT END OF YEAR	<u><u>\$ 75,648</u></u>	<u><u>\$ 44,748</u></u>

**41ST DISTRICT AGRICULTURAL ASSOCIATION
DEL NORTE COUNTY FAIR
CRESCENT CITY, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 41st District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Del Norte County Fair each year in Crescent City, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned

rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the

useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 NEW ACCOUNTING STANDARDS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, (“GASB Statement No. 49”). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2008</u>	<u>2007</u>
Petty Cash	\$ 100	\$ 100
Cash in Bank - Operating	54,928	5,557
Cash in Bank – Premium	-	2,405
Cash in Bank – Payroll	2,451	2,573
Cash in Bank – JLA	13,131	13,807
Cash in Bank - LAIF	<u>5,038</u>	<u>20,306</u>
Total Cash and Cash Equivalents	<u>\$ 75,648</u>	<u>\$ 44,748</u>

NOTE 4 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	<u>2008</u>	<u>2007</u>
Accounts Receivable	\$ 13,604	\$ 13,509
Accounts Receivable - JLA	5,345	3,588
Accounts Receivable - CCA	149,475	144,071
Accounts Receivable - UI	-	-
Allowance for Doubtful Accounts	<u>(2,432)</u>	<u>(3,559)</u>
Accounts Receivable - Net	<u>\$ 165,992</u>	<u>\$ 157,609</u>

NOTE 5 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2008</u>	<u>2007</u>
Building & Improvements	\$ 2,496,507	\$ 2,488 707
Less: Accumulated Depreciation	<u>(1,465,111)</u>	<u>(1,408,944)</u>
Building & Improvements - Net	<u>\$ 1,031,396</u>	<u>\$1,079,763</u>
Equipment	\$ 162,837	\$ 162,837
Less: Accumulated Depreciation	<u>(162,837)</u>	<u>(162,837)</u>
Equipment - Net	<u>\$ -</u>	<u>\$ -</u>

NOTE 6 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

NOTE 8 **LITIGATION**

The DAA is subject to various claims and legal actions relating to a range of matters that are incidental to the conduct of its operations, the DAA's management believes none of which will have a material effect on its financial position or results of operations.

**41ST DISTRICT AGRICULTURAL ASSOCIATION
DEL NORTE COUNTY FAIR
CRESCENT CITY, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 41st DAA Board of Directors
1	Chief Executive Officer, 41st DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



41ST DISTRICT AGRICULTURAL ASSOCIATION
DEL NORTE COUNTY FAIR
CRESCENT CITY, CALIFORNIA

MANAGEMENT REPORT #09-041

YEAR ENDED DECEMBER 31, 2008

41ST DISTRICT AGRICULTURAL ASSOCIATION
DEL NORTE COUNTY FAIR
CRESCENT CITY, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Michelle Chan

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#09-041

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Kevin Hartwick, President
Board of Directors
41st DAA, Del Norte County Fair
421 Highway 101 North
Crescent City, California 95531

In planning and performing our audit of the financial statements of the 41st District Agricultural Association (DAA), Del Norte County Fair, Crescent City, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Del Norte County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 41st DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 41st DAA's assets. The system of internal control



should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 41st DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 41st DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 41st DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 41st DAA and compliance with state laws and regulations, we identified two areas with reportable conditions that are considered weaknesses in the Fair's operations: opportunity purchases, and time records. We have provided two recommendations to improve the operations of the Fair. The Fair must respond in writing on how the recommendation will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 41st DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

OPPORTUNITY PURCHASES

The Fair failed to document that the opportunity purchases made during 2008 were at a price equal to or less than the price available through state purchasing. Opportunity purchases allow the DAAs to purchase commodities from any source provided it meets or beats the price available through the state purchasing program. Therefore, to claim an opportunity purchase, the Fair must demonstrate and provide copies of actual price information or exemption justification when necessary. According to the State Administrative Manual Chapter 3580, Fairs must complete and maintain the Standard Form 65 (STD 65) for all purchases over \$100 stating that the purchase was an opportunity purchase. For purchases valued at \$2,500 to \$24,999, the Fair must obtain verbal or written quotations from at least three possible sources and complete a "Non-Competitive Bid Contract Justification" form attached to the STD 65. Merely stating the local price was equivalent to or less than that available through the state purchasing program does not sufficiently meet the documenting criteria. This was a prior year finding.

Recommendation

- 1. The Fair should follow the proper guidelines when making and claiming an opportunity purchase by completing all required forms and attaching all supporting documents demonstrating how the opportunity purchase meets or beats the state price.*

TIME RECORDS

A manager of the Fair did not complete the Standard Form 634 (STD 634), Absence and Additional Time Worked Report, for the year 2008. When copies of the manager's 2008 STD 634's were requested, the Fair was unable to locate the records. As a result, our office noted the manager used 200 hours of vacation without formal approval documented on the STD 634. According to the Division of Fairs & Expositions Accounting Procedures Manual (APM) Section 3, Chapter 4.1, the Fair should maintain time cards for all employees to ensure compliance with labor laws related to overtime and paid leaves. The time cards must be reviewed and signed by a supervisor or board member, and time cards should show hours worked and leave taken.

Recommendation

- 2. The Fair should comply with the APM and require all permanent employees to maintain time cards that show time worked and vacation taken with the appropriate supervisor approval.*

NON-REPORTABLE CONDITIONS

ACCOUNTING FOR FIXED ASSETS

Based on our examination of the Fair's general ledger (G/L), the Fair did not capitalize one completed project totaling \$7,800. As a result, the Fair's G/L balances for Accounts #192, Buildings & Improvements, and #192.1, Accumulated Depreciation, were understated by \$7,800 and \$260, respectively.

According to the Accounting Procedures Manual (APM) Section 1, Chapter 2.6, fairs are required to capitalize items with a value greater than \$5,000 and a useful life of at least one year. Capitalized property that does not meet the asset capitalization criteria should be removed from the general ledger. This was a prior audit issue.

Recommendations

The Fair should update its general ledger by booking a journal entry to capitalize the completed project to ensure that the Fair's fixed assets are fairly stated.

The Fair should update its property records and capitalize, on a monthly basis, all items greater than \$5,000 with a useful life of at least one year.

PURCHASE ORDER LOG

The Fair did not have a complete control log of purchase orders for the year 2008. Upon examination of the purchase order log, it was noted that purchase orders were not in sequential order and, in most instances, the price or date of purchase were not indicated. According to the APM Section 3, Chapter 2.12, the Fair should maintain a purchase order log that lists purchase orders numerically, and should include the date of purchase, name of vendor, and all items purchased. A control log is required to prove the Fair's compliance with the state's goals by obtaining the best dollar value for purchases.

Recommendation

The Fair should comply with APM guidelines when documenting opportunity purchases by maintaining a proper control log that contains the date, price, name of vendor and all items purchased in sequential order.

BOARD OF DIRECTORS MEETING MINUTES

An examination of the Fair's 2008 Board of Director's meeting minutes identified that the CEO and the Board President did not sign all 2008 meeting minutes indicating a formal certification of the actual activity discussed in a public forum. By having both the CEO and the Board President review and approve the minutes, it improves controls by mitigating the possibility of any changes being made to minutes after the fact.

Recommendation

The Fair should ensure the CEO and the Board president formally certify the minutes of all Board of Director meetings by signing and dating the related minutes after a review has taken place. This process serves dual purposes as it (i) helps ensure the minutes accurately reflect the activity discussed during the public forum, and (ii) mitigates the possibility of any changes being made to the minutes.

REVENUE CONTRACTS

The Fair did not have a representative of the Fair or the contractor sign the contracts in six instances that our office noted, which exposed the Fair to a potential loss. The Contract Manual for District Agricultural Associations requires a signature by a person for each party who is authorized to bind that party. These signatures verify that the contract has been reviewed and approved by both parties prior to any final monetary settlement.

Recommendation

The Fair should ensure that revenue contracts have been reviewed and signed by both parties to alleviate any discrepancies that may later arise.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

August 24, 2009

CDFA Audit Office
Ron Shackelford, CPA
Chief, Audit Office
1220 N St., Room 344
Sacramento, Ca. 95814

Subject: 2008 Audit Response

Dear Mr. Shackelford,

The Fair has reviewed the Audit Report and our response is as follows.

OPPORTUNITY PURCHASES

The fair will insure that the proper paper work is completed to justify opportunity purchases.

TIME RECORDS

The fair requires all employees to maintain proper records for time worked and time taken. The manager has not in the past documented time worked because he does not get paid overtime. The manager will provide information on all time worked in excess and time taken.

This concludes our response. If you have any questions, please contact me.

Thank you,


Randy Hatfield CEO
cc. Mike Treacy F&E


Kevin Hartwick Board President

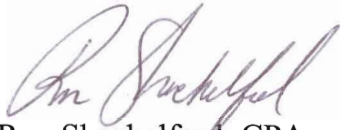
CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 41st DAA, Del Norte County Fair, for their review and response. We have reviewed the response and it satisfactorily addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between June 15, 2009 and June 26, 2009. My staff met with management on June 26, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read "Ron Shackelford", is written over a light gray rectangular background.

Ron Shackelford, CPA
Chief, Audit Office

June 26, 2009

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 41st DAA Board of Directors
1	Chief Executive Officer, 41st DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office